

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
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R 231239Z AUG 78
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 252
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY BRASILIA
AMCONSUL SAO PAULO
AMEMBASSY LA PAZ
AMEMBASSY LIMA

UNCLAS SANTIAGO 6317

EO 11652: NA
TAGS: EFIN, AFIN, ALOW, CI
SUBJ: JULY INFLATION, MONEY SUPPLY AND IMPORT REGISTRATION TRENDS

1. THE CHILEAN CONSUMER PRICE INDEX (CPI) ROSE 2.5 PERCENT IN JULY ON A NON-SEASONALLY ADJUSTED BASIS TO 2,225 PERCENT OF ITS 1974 BASE. ACCUMULATED INFLATION IN 1978 NOW TOTALS 17.6 PERCENT. THE 1978 JULY CPI WAS 1.4 PERCENTAGE POINTS LOWER THAN FOR THE SAME MONTH LAST YEAR. THE JULY RATE COMPARED UNFAVORABLY WITH AN AVERAGE MONTHLY INCREASE OF 2.3 PERCENT IN THE FIRST SIX MONTHS OF 1978.

2. CENTRAL BANK OFFICIALS HAD ANTICIPATED THAT CONTRACTIONS IN THE MONEY SUPPLY WOULD REDUCE THE SEASONAL INCREASE IN THE JULY CPI. THE 2.5 PERCENT INCREASE THEREFORE EXCEEDED PEOPLE'S INFLATIONARY EXPECTATIONS. BAD WEATHER WAS THE MAIN CAUSE. RAINS AND STORMS DURING THE WHOLE MONTHS INTERRUPTED THE FOOD SUPPLY CAUSING PRICE INCREASES IN MEAT AND VEGETABLE. THESE COMPONENTS ACCOUNTED FOR ABOUT 0.7 PERCENTAGE POINTS
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OF TOTAL CPI.

3. THE ACCELERATION IN PRICES OCCURRED PRIMARILY IN THE FOOD COMPONENT WHICH INCREASED BY 2.8 PERCENT. THE CLOTHING INDEX ROSE BY 3.4 PERCENT, FOLLOWED BY MISCELLANEOUS 2.0 PERCENT AND HOUSING 1.5 PERCENT.

4. INFLATION OVER THE PREVIOUS 12 MONTH PERIOD NOW STANDS AT 38.5 PERCENT. A LINEAR TREND STARTING FROM AUGUST 1977 THROUGH JULY 1978 INDICATES AN UPPER LIMIT ON 1978 INFLATION OF 30.9 PERCENT.

5. MONEY SUPPLY (M1): M1 CONTINUES TO BE UNSTABLE. AFTER TWO MONTHS OF CONTRACTION, THE FIGURE FOR JULY SHOWS A 4.3 PERCENT INCREASE FROM JUNE 1978 RESULTING IN A MONETARY EXPANSION THUS FAR IN 1978 OF 38.4 PERCENT. IN REAL TERMS THIS FIGURE IS REDUCED TO 18 PERCENT. THE FOLLOWING CHART ILLUSTRATES THE CENTRAL BANK'S RELATIVE LACK OF CONTROL OVER THE DOMESTIC MONETARY AGGREGATES:

MONTHLY VARIATION IN M1 (PER CENT)
FROM DECEMBER 31, 1977

	NOMINAL	REAL
JANUARY	5.9	4.0
FEBRUARY	11.3	6.7
MARCH	26.7	18.0
APRIL	35.3	22.9
MAY	34.7	19.7
JUNE	32.7	15.7
JULY	38.4	17.7

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6. IMPORT REGISTRATION TRENDS: IMPORTS IN JULY WERE VALUED AT US\$261 MILLION. THE FIGURE FOR THE PERIOD JANUARY-JULY 1978 SHOWS AN INCREASE OF 21.3 PERCENT OVER THE SAME PERIOD LAST YEAR. THE CENTRAL BANK REPORTED THAT IN THE FIRST SIX MONTHS OF THE YEAR 52.4 PERCENT OF TOTAL EXPORTS (EXCLUDING COPPER) WENT TO THE U.S., JAPAN, ARGENTINA, BRASIL AND WEST GERMANY. LIKewise, 56 PERCENT OF CHILEAN IMPORTS CAME FROM THOSE COUNTRIES. DURING THE PERIOD JANUARY-JUNE 1978 THE U.S. SHARE WAS 13.5 PERCENT OF TOTAL CHILEAN EXPORTS AND 21 PERCENT OF TOTAL CHILEAN IMPORTS (DOWN FROM 23 PERCENT DURING THE SAME PERIOD OF 1977). DESPITE THIS LOSS OF 2 PERCENTAGE POINTS, THE U.S. IS STILL THE MAIN SUPPLIER TO THE CHILEAN MARKET.
GROVER

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